

WESTERN DEPARTMENT STORES
AND SUBSIDIARIES

REPORT
to
STOCKHOLDERS

January 31, 1942

Stores operated:

OLDS, WORTMAN & KING

Portland
Est. 1851

KAHN'S

Oakland
Est. 1879

RHODES BROTHERS

Tacoma
Est. 1892

WESTERN DEPARTMENT STORES

A California Corporation

Incorporated in 1937

BOARD OF DIRECTORS

J. R. BEARWALD

F. R. McGREW

HERBERT E. CLAYBURGH

JOHN J. REILLY

A. DOUGLAS MCBRYDE

F. A. WICKETT

F. J. YOUNG

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<i>President</i>	JOHN J. REILLY
<i>Vice-President</i>	A. DOUGLAS MCBRYDE
<i>Secretary and Treasurer</i>	F. R. McGREW
<i>Assistant Secretary</i>	JOHN J. GOLDBERG
<i>Assistant Treasurer</i>	H. W. RHEUBOTTOM

LEGAL COUNSEL

JESSE H. STEINHART

PUBLIC ACCOUNTANTS

PRICE, WATERHOUSE & Co.

TRANSFER AGENT

THE ANGLO CALIFORNIA NATIONAL BANK
OF SAN FRANCISCO
No. 1 Sansome Street
San Francisco, California

REGISTRAR

WELLS FARGO BANK & UNION
TRUST CO.
Montgomery and Market Streets
San Francisco, California

Annual Stockholders Meeting Oakland, California, April 28, 1942, 10:00 o'clock A. M.
Executive Offices 1501 Broadway, Oakland, California (Kahn's Department Store)

Oakland, California
April 13, 1942

To the Stockholders of
WESTERN DEPARTMENT STORES:

Financial statements are presented for the fiscal year ended January 31, 1942, as reported on by Price, Waterhouse & Co. following their examination of the books of Western Department Stores and its wholly owned subsidiaries.

These statements consist of, (a) a consolidated balance sheet and earnings statement of Western Department Stores (the parent company), Kahn Department Stores, Inc., Olds, Wortman & King, Inc., Northwest Department Stores, Inc. (the three store operating companies) and Morrison & Tenth Company (the company which holds the lease upon the property occupied by the Portland store), and (b) the balance sheet and earnings statement of Shiels Estate Company and its wholly owned company, O'Farrell & Stockton Realty Company, which are not consolidated into the statements of the parent company but are shown separately.

EARNINGS

The combined sale volume of the department stores increased from \$9,473,840 to \$11,388,126, an increase of 20%, and the consolidated net profit of the company and its subsidiaries after payment of interest on indebtedness and providing for Federal taxes increased from \$275,383 to \$388,954, an increase of 41%.

This consolidated net profit was the equivalent of 3.8 times the annual dividend accrued on the outstanding preferred stock of Western Department Stores. After deducting the preferred stock dividend requirement at the rate of \$1.75 per share, the remaining consolidated net profit was equal to \$4.57 per share on the company's outstanding common stock.

The agreement with bank and landlord creditors provides that no dividends can be paid by Western Department Stores without the prior consent of at least four of these creditors. As of January 1, 1942, accumulated and accrued dividends on the preferred stock of Western Department Stores amounted to \$533,260.87, or approximately \$9.19 per share outstanding.

BALANCE SHEET

Accounts receivable increased \$115,786 and merchandise inventories increased \$325,482, both increases being in line with the larger volume of business during the past year; furthermore, it was necessary to anticipate normal requirements in many merchandise lines by bringing in merchandise at an earlier date than usual to assure deliveries in time for seasonal needs.

Consolidated working capital of \$2,267,708 at the end of the year shows only a slight increase over the previous year. The ratio of current assets to current liabilities was 2.8 to 1 as compared with 3.7 to 1 last year. This decline, while due partly to substantial increase in Federal tax liability, is to be expected under present business conditions.

INDEBTEDNESS

Payments totaling \$393,288.59 have been made on the principal amount due bank and landlord creditors covered by an agreement dated August 21, 1933, and this indebtedness (which originally amounted to \$2,891,589.65) thereby has been reduced to \$1,407,891.51.

Also, during the year, the Portland store paid \$37,500 representing the balance of monies borrowed to finance the purchase by Morrison & Tenth Company of the leasehold interest on the property occupied by that store.

SHIELS ESTATE COMPANY

The carrying value of the investment in Shiels Estate Company, \$717,103.64, represents the cost of the investment, \$732,008.88, less the consolidated net loss of that company and its subsidiary since acquisition. The principal asset underlying this investment is the property at O'Farrell and Stockton Streets in San Francisco which is carried in the accompanying consolidated balance sheet of Shiels Estate Company at an amount which your Directors estimate is substantially in excess of present realizable value.

During the year Shiels Estate Company sold an unimproved lot on Mission Street in San Francisco at a loss of \$39,041.25. As stated above, this loss has been taken up in the accounts of the parent company.

GENERAL

At the last annual meeting of stockholders several amendments to the Articles of Incorporation were authorized, including the change in name of the company to Western Department Stores, and all of these amendments have been made effective. It is not necessary, however, for stockholders to obtain new stock certificates, as certificates bearing the name B. F. Schlesinger Company now held by stockholders will represent stock in Western Department Stores.

On January 30, 1942, ten executives of the company and its operating subsidiaries exercised their options to purchase common stock of the corporation as authorized at a special meeting of stockholders held on December 12, 1939. The aggregate number of common shares purchased was 14,000 shares for which the company received \$35,000 and this amount has been used to reduce the indebtedness to bank and landlord creditors. The total number of common shares now outstanding is 62,788-11/15 shares.

No forecast can be made at this time regarding our future operations, as retailing will be greatly affected by our country's need for an "all out" war effort. Your Board of Directors and the Management fully realize the many and difficult problems to be faced during this period and will meet these changing conditions as they occur.

The accomplishments during the past year have been made possible by the loyalty, earnest work, and resourcefulness of the employees of the company and to them the Board of Directors desires to express its appreciation as well as its confidence in the ability of this organization to meet future problems.

FOR THE BOARD OF DIRECTORS

JOHN J. REILLY, *President*

ACCOUNTANTS' REPORT

San Francisco
April 7, 1942

TO THE BOARD OF DIRECTORS OF
WESTERN DEPARTMENT STORES

We have examined the accompanying financial statements of Western Department Stores (formerly B. F. Schlesinger Company) and wholly owned companies as at January 31, 1942, as follows:—

Western Department Stores and wholly owned store operating companies:

Consolidated balance sheet

Consolidated statement of profit and loss and earned surplus

Shiels Estate Company and wholly owned company:

Consolidated balance sheet

Consolidating statement of profit and loss and deficit

In connection therewith, we have reviewed the system of internal control and the accounting procedures of the companies and, without making a detailed audit of the transactions, have examined or tested accounting records of the companies and other supporting evidence, by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary.

In our opinion, the accompanying financial statements, as supplemented by the notes appended thereto, present fairly the position of the companies at January 31, 1942, and the results of their operations for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PRICE, WATERHOUSE & Co.

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CONSOLIDATED BALANCE S

(With comparative figures

(See annexed notes to

ASSETS

	January 31	
	1942	1941
Current Assets:		
Cash in banks and on hand	\$ 457,379.28	\$ 437,859.59
Accounts receivable:		
Customers	\$ 1,668,591.61	\$ 1,537,768.91
Miscellaneous	36,625.00	51,661.35
	<u>\$ 1,705,216.61</u>	<u>\$ 1,589,430.26</u>
Less—Reserves for doubtful accounts	130,990.46	117,686.28
	<u>\$ 1,574,226.15</u>	<u>\$ 1,471,743.98</u>
Inventories of merchandise:		
On hand, at or below cost as determined by the retail inventory method	\$ 1,347,717.17	\$ 1,029,598.39
In transit, at cost	120,297.75	112,933.66
	<u>\$ 1,468,014.92</u>	<u>\$ 1,142,532.05</u>
Total current assets	<u>\$ 3,499,620.35</u>	<u>\$ 3,052,135.62</u>
Investment in and Advances to Shiels Estate Company (wholly owned)		
(Notes A and B):		
Investment	\$ 717,103.64	\$ 751,022.72
Advances	15,179.76	33,677.00
	<u>\$ 732,283.40</u>	<u>\$ 784,699.72</u>
Miscellaneous Investments, Deposits and Advances:		
Investments, at or below cost (Note A)	\$ 14,035.01	\$ 13,357.35
Insurance and other deposits	3,717.32	3,292.32
Note receivable	1,275.00	4,875.00
Store repairs and improvements, recoverable from lessor	28,439.39	11,189.54
	<u>\$ 47,466.72</u>	<u>\$ 32,714.21</u>
Fixed Assets, at cost:		
Land	\$ 5,000.00	\$ 5,000.00
Building, furniture and equipment, etc.	1,077,601.36	1,037,819.90
Leasehold and improvements to leased buildings	724,325.33	724,325.33
	<u>\$ 1,806,926.69</u>	<u>\$ 1,767,145.23</u>
Less—Reserves for depreciation and amortization	1,238,297.65	1,178,069.62
	<u>\$ 568,629.04</u>	<u>\$ 589,075.61</u>
Deferred Charges:		
Unexpired insurance, prepaid taxes and other expenses	\$ 95,077.50	\$ 62,721.34
	<u>\$ 4,943,077.01</u>	<u>\$ 4,521,346.50</u>

RTMENT STORES

(lesinger Company)

Corporation)

RE OPERATING COMPANIES

HEET — JANUARY 31, 1942

(s as at January 31, 1941)

(financial statements)

LIABILITIES

	January 31	
	1942	1941
Current Liabilities:		
Notes payable to banks	—	\$ 15,000.00
Accounts payable, trade	\$ 545,164.43	502,010.07
Payrolls, taxes and other accrued liabilities	266,471.45	156,858.80
Provision for Federal income and excess profits taxes	419,251.22	143,453.00
Unclaimed dividends of predecessor company	1,024.88	1,024.88
Total current liabilities	<u>\$1,231,911.98</u>	<u>\$ 818,346.75</u>
 Liability to Banks and Landlords, subject to agreement (Note A)	<u>\$1,407,891.51</u>	<u>\$1,801,180.10</u>
 Notes Payable to Banks, payable \$1,250.00 per month (\$15,000.00 due in one year included in current liabilities)	<u>—</u>	<u>\$ 22,500.00</u>
 Capital Stock and Surplus:		
Capital stock:		
Preferred, 7% cumulative (Note C):		
Authorized 58,042 shares of a par value of \$25.00 per share		
Issued, 58,042 shares	\$1,451,050.00	\$1,451,050.00
Common (Note D):		
Authorized, 65,000 shares of no par value		
Issued, 62,788-11/15 shares at January 31, 1942, and 48,788-11/15 shares at January 31, 1941	35,001.00	1.00
	<u>\$1,486,051.00</u>	<u>\$1,451,051.00</u>
Initial deficit (Note E)	326,488.33	326,488.33
Stated capital	\$1,159,562.67	\$1,124,562.67
Earned surplus since reorganization April 8, 1937, per statement attached	1,143,710.85	754,756.98
	<u>\$2,303,273.52</u>	<u>\$1,879,319.65</u>
	<u><u>\$4,943,077.01</u></u>	<u><u>\$4,521,346.50</u></u>

WESTERN DEPARTMENT STORES
 (Formerly B. F. Schlesinger Company)
AND WHOLLY OWNED STORE OPERATING COMPANIES

CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND EARNED SURPLUS,
YEAR ENDING JANUARY 31, 1942

(With comparative figures for year ending January 31, 1941)

	Year ending January 31	
	1942	1941
Net sales, including leased departments	\$11,388,125.93	\$9,473,840.21
Less—Sales of leased departments	1,882,397.31	1,651,238.31
	<hr/>	<hr/>
	\$9,505,728.62	\$7,822,601.90
Cost of merchandise sold	6,197,147.60	5,200,542.90
	<hr/>	<hr/>
Gross profit on sales—own departments	\$3,308,581.02	\$2,622,059.00
Discounts on purchases	267,633.97	222,849.37
Gross income from leased departments	239,903.37	213,893.29
	<hr/>	<hr/>
	\$3,816,118.36	\$3,058,801.66
Selling, general and administrative expenses	2,934,957.07	2,591,676.10
	<hr/>	<hr/>
	\$ 881,161.29	\$ 467,125.56
Provisions for depreciation and amortization	60,809.03	59,314.31
	<hr/>	<hr/>
Operating profit	\$ 820,352.26	\$ 407,811.25
Other income	82,374.61	64,236.84
	<hr/>	<hr/>
	\$ 902,726.87	\$ 472,048.09
	<hr/>	<hr/>
Other charges:		
Interest on bank loans, etc.	\$ 2,428.65	\$ 4,695.19
Miscellaneous	4,490.59	2,991.21
	<hr/>	<hr/>
	\$ 6,919.24	\$ 7,686.40
	<hr/>	<hr/>
Profit from store operations, before provision for Federal taxes on income	\$ 895,807.63	\$ 464,361.69
Net profit or loss of Shiels Estate Company and its wholly owned company (Note B)	33,919.08	6,318.18
Supervision fee charged to Shiels Estate Company	300.00	300.00
	<hr/>	<hr/>
	\$ 862,188.55	\$ 470,979.87
Interest on liability under creditors' agreement	54,033.41	60,480.64
	<hr/>	<hr/>
	\$ 808,155.14	\$ 410,499.23
	<hr/>	<hr/>
Provision for Federal taxes on income:		
Income taxes	\$ 200,077.96	\$ 117,496.91
Declared value excess profits tax	<hr/>	604.00
Excess profits tax	219,123.31	17,014.77
	<hr/>	<hr/>
	\$ 419,201.27	\$ 135,115.68
	<hr/>	<hr/>
Net profit for year	\$ 388,953.87	\$ 275,383.55
	<hr/>	<hr/>
Earned surplus at beginning of year	754,756.98	432,312.99
Adjustment of provisions for bad debts, depreciation, etc., for prior years	<hr/>	47,060.44
	<hr/>	<hr/>
Earned surplus at end of year (accumulated since reorganization, April 8, 1937)	\$1,143,710.85	\$ 754,756.98
	<hr/>	<hr/>

(See notes to financial statements)

**WESTERN DEPARTMENT STORES
AND WHOLLY OWNED STORE OPERATING COMPANIES**
NOTES TO FINANCIAL STATEMENTS — JANUARY 31, 1942

General note relative to consolidation:

The consolidated financial statements include the accounts of Western Department Stores and its wholly owned subsidiary companies engaged in department store operations, listed below:

Store operating companies:	Related real estate company:
Kahn Department Stores, Inc.	Morrison & Tenth Company
Olds, Wortman & King, Inc.	
Northwest Department Stores, Inc.	

The accounts of the wholly owned companies not connected with store operations, Shiels Estate Company and its wholly owned subsidiary, have not been consolidated with those of Western Department Stores.

Note A:

The capital stocks of all of the wholly owned companies, and an investment carried at \$1,472.00, are pledged as collateral on the liability to banks and landlords, subject to an agreement between these creditors and B. F. Schlesinger & Sons, Incorporated (predecessor company), dated August 21, 1933, providing for forbearance by such creditors until June 1, 1936, which period of forbearance was extended to March 31, 1939, by supplemental agreement dated April 7, 1937; the assets pledged were acquired by Western Department Stores, subject to the above mentioned liabilities and pledge agreements, on April 8, 1937. The period of forbearance has been extended to March 31, 1942, by supplemental agreements dated as of April 1, 1939, April 1, 1940, and April 1, 1941. Also, under such agreements dividends on stocks of the subsidiary companies and other investment are paid directly to a pledge holder for distribution to the creditors.

Note B:

The investment in Shiels Estate Company is carried at cost to the predecessor company, B. F. Schlesinger & Sons, Incorporated, plus profits or minus losses of such company and its wholly owned company since date of acquisition by B. F. Schlesinger & Sons, Incorporated; as at January 31, 1942, the accumulated loss was \$14,905.24, and as at January 31, 1941, the undistributed net profits were \$19,013.84.

The net results of this subsidiary and its wholly owned company included in the consolidated statement of profit and loss were a loss of \$33,919.08 (operating profit of \$5,122.17 less loss on sale of real estate \$39,041.25) for the year ending January 31, 1942, and a net profit of \$6,318.18 for the year ending January 31, 1941; no dividends have been received from Shiels Estate Company since date of acquisition.

It is the present judgment of the management that the carrying value of this investment is substantially in excess of estimated realizable value of the underlying real estate, see President's report.

Note C:

The articles of incorporation provide that in the event of any liquidation, dissolution or winding up of the Company, whether voluntary or involuntary, holders of the 7% preferred stock shall be entitled to receive \$27.50 per share plus all dividends accrued thereon. The aggregate liquidating value of the 58,042 shares of preferred stock plus the cumulative dividends thereon accrued from January 1, 1937, and the book value of net assets of the Company at January 31, 1942 and January 31, 1941 are shown hereunder:

	January 31	
	1942	1941
Liquidating value	\$1,596,155.00	\$1,596,155.00
Cumulative dividends accrued from January 1, 1937, per share, \$9.1875 to January 31, 1942, and \$7.4375 to January 31, 1941	533,260.87	431,687.37
Liquidating value plus accrued dividends	\$2,129,415.87	\$2,027,842.37
Book value of net assets	2,303,273.52	1,879,319.65
Excess of book value of net assets (see Note B)	<u>\$ 173,857.65</u>	
Deficiency in book value of net assets		\$ 148,522.72

Under the agreements with creditors mentioned in Note A, the Company shall not declare any dividends upon its stock without written approval by any four of the signatory creditors.

Note D:

Under an agreement dated December 28, 1939, the Company granted to its President a non-transferable option, expiring January 31, 1942, to purchase 8,000 shares of its common stock for \$2.50 per share. During March, 1940, the Company granted non-transferable options, expiring January 31, 1942, to nine officers and employees of its wholly owned store operating companies, to purchase an aggregate of 7,000 shares of its common stock for \$2.50 per share; on January 21, 1942, options aggregating 500 shares were transferred to two additional employees in lieu of an option nullified by reason of resignation of an employee.

Of the foregoing, options aggregating 14,000 shares were exercised during January, 1942, for a total amount of \$35,000.00.

Note E:

The par value of the preferred stock and the stated value of the common stock of the Company issued in the reorganization, April 8, 1937, exceeded the net assets acquired from the predecessor company by \$326,488.33, which accounts for the initial deficit of that amount.

SHIELS ESTATE COMPANY
AND WHOLLY OWNED COMPANY

CONSOLIDATED BALANCE SHEET — JANUARY 31, 1942

ASSETS

Land and building (Note A):			
O'Farrell and Stockton Streets, San Francisco, property	\$1,616,825.69		
Less—Reserve for depreciation	119,802.41		\$1,497,023.28
Investments, as valued by Directors on January 31, 1934:			
Western Department Stores, 320 shares of common stock	\$ 4,000.00		
Real estate	388.40		4,388.40
Cash in bank			16,348.87
Cash held by Trustee for redemption of bonds			448.71
Note receivable, secured by deed of trust to real estate			24,000.00
Deferred charges:			
Unexpired insurance and prepaid taxes		1,980.41	
Unamortized discount on bonds		19,620.58	
			\$1,563,810.25

LIABILITIES

O'Farrell & Stockton Realty Company, first mortgage 5½% freehold bonds,			
Series "A" of 1947 (extended to 1952) (Note B)		\$ 814,500.00	
Accrued interest and taxes		13,871.81	
Owing to Western Department Stores		15,179.76	
Provision for Federal income tax		3,155.04	
			\$ 846,706.61

Capital stock and surplus:

Capital stock:			
Authorized, 7,000 shares of \$100.00 par value per share			
Issued and outstanding, 3,090 shares		\$ 309,000.00	
Surplus:			
Capital surplus	\$702,482.61		
Deficit from operations, per statement attached	294,378.97	408,103.64	717,103.64
			\$1,563,810.25

Note A—The book value of the O'Farrell and Stockton Streets, San Francisco, property is based on an appraisal thereof made in 1927 by Marten C. Madsen, as shown in a copy of a prospectus covering the offering of \$1,100,000.00 of Series "A" bonds of O'Farrell & Stockton Realty Company made in that year. This book value has been reduced in the above balance sheet by \$203,328.31 as of August 1, 1933, to bring the adjusted capital stock and surplus of Shiels Estate Company and its wholly owned subsidiary into agreement with the carrying value of the stock of Shiels Estate Company in the books of Western Department Stores. The amount at which the property is stated in the above balance sheet does not purport to represent present realizable value.

Note B—Under the provisions of the deed of trust as amended, the wholly owned subsidiary, O'Farrell & Stockton Realty Company, is required to deposit with the trustee on April 1 of each year, for purchase and retirement of first mortgage 5½% freehold bonds, Series "A," cash or bonds held by that company equal to the annual net earnings as defined in the deed of trust. Such net earnings for the fiscal year ending January 31, 1942, were \$14,931.30.

SHIELS ESTATE COMPANY

AND WHOLLY OWNED COMPANY

CONSOLIDATING STATEMENT OF PROFIT AND LOSS AND DEFICIT

YEAR ENDING JANUARY 31, 1942

	Shiels Estate Company	O'Farrell & Stockton Realty Company	Consoli- dated
Income:			
Rents	\$ 3,243.36	\$ 90,000.00	\$ 93,243.36
Expenses:			
Taxes, real estate	\$ 1,864.11	\$ 23,957.85	\$ 25,821.96
Management fee	300.00	—	300.00
Other expenses and taxes	556.50	3,131.98	3,688.48
	\$ 2,720.61	\$ 27,089.83	\$ 29,810.44
	\$ 522.75	\$ 62,910.17	\$ 63,432.92
Provision for depreciation	—	\$ 8,506.68	\$ 8,506.68
Bond interest	—	44,797.50	44,797.50
Amortization of bond discount	—	1,825.20	1,825.20
	—	\$ 55,129.38	\$ 55,129.38
Loss on sale of real estate	\$ 522.75	\$ 7,780.79	\$ 8,303.54
	39,041.25	—	39,041.25
Net profit or loss before providing for Federal income tax	\$ 38,518.50	\$ 7,780.79	\$ 30,737.71
Provision for Federal income taxes	—	3,181.37	3,181.37
Net profit or loss for year	\$ 38,518.50	\$ 4,599.42	\$ 33,919.08
Deficit or surplus from operations, January 31, 1941	\$287,322.95	\$ 26,863.06	\$260,459.89
Net profit or loss for year	38,518.50	4,599.42	33,919.08
Deficit or surplus from operations, January 31, 1942	\$325,841.45	\$ 31,462.48	\$294,378.97

